DRAFT RECLAMATION MANUAL RELEASE

Comments on this draft release must be submitted to dnicholson@do.usbr.gov by July 27, 2007.

Background and Purpose of the Following Draft Directive and Standard (D&S)

The need to revise and update the Reclamation Manual (RM), Interest on Investment (IOI) Directive and Standard (D&S) was based upon the Office of Management and Budget (OMB) financial statement reporting frequency requirements, prior-year Chief Financial Officer (CFO) audit findings, and OMB Circular A-123 – Management's Responsibility for Internal Control.

OMB reporting requirements have changed and as a result, Federal departments and agencies are required to record revenue and expense accrual quarterly. Prior year CFO audits revealed that the Bureau of Reclamation was not consistently recording interest expense and revenue and that there were instances of erroneous or absent entries. OMB Circular A-123 internal control processes are dependent upon agency procedure documentation. Reclamation's RM IOI D&S was last updated in June 1996. Substantial changes have occurred in Reclamation's accounting processes and Federal generally-accepted accounting principles since that date.

The RM is used to clarify program responsibility and authority and to document Reclamation-wide methods of doing business. All requirements in the RM are mandatory.

Reclamation Manual

Directives and Standards

Subject: Interest on Investment (IOI)

Purpose: To provide procedures for calculating and recording IOI. The benefits of this Directive and Standard (D&S) are that it provides Reclamation-wide legal and financial IOI calculating and reporting requirements.

Authority: Reclamation Project Act of 1939, August 4, 1939, Section 9(c) (Ch. 418, 53 Stat. 1187); River and Harbor, Flood Control, and Water Supply Act of 1958, July 3, 1958, (P.L. 85-500, 72 Stat. 297); The Reclamation Safety of Dams Act Amendments of 1984, August 28, 1984, (P.L. 98-404, 98 Stat. 1481); Department of Energy (DOE) Organization Act of August 4, 1977 (P.L. 95-91, 91 Stat. 565); DOE Order RA 6120 – Power Marketing Administration Financial Reporting, September 20, 1979; Federal Accounting Standard Board, Statement of Federal Financial Accounting Standards 4 – *Managerial Cost Accounting Concepts and Standards*.

Approving Official: Director, Management Services Office

Contact: Business Analysis Division (BAD), 84-27410

1. **Scope.** All original, new, additions, and replacements capitalized construction costs allocated to reimbursable project purposes, with the exception of the irrigation project purpose, are generally subject to an IOI assessment, regardless of the fund allocation, unless otherwise provided by law. Reclamation law does not authorize the assessment of interest on irrigation capital investment except in very limited situations where specific authorizing legislation so dictates. IOI is not assessed on capitalized construction costs paid for by project beneficiary advanced funds.

2. **Rolls and Responsibilities.**

   A. **Regional Finance Officers.** The regional finance officers' responsibilities include the following:

      (1) Ensuring regional internal controls for identifying and tracking all project components subject to IOI are properly designed, documented, and operated.

      (2) Ensuring all reimbursable capital investment as well as operation and maintenance (O&M) deficits, subject to IOI assessments, are identified.

(3) Ensuring all IOI assessments are accurately calculated and recovered as required by Reclamation law or Reclamation policy and that reviews are performed and documented.

(4) Ensuring quarterly IOI imputed expense estimates and IOI revenue estimates are recorded in the official accounting system, as required in this D&S.

(5) Ensuring that annual due diligence reviews are performed and documented for IOI assessment calculations received from Western Area Power Administration (Western) and Bonneville Power Administration (BPA) for Reclamation's power generation assets.

B. **Project Accountant and Budget Analyst.** Project accountants and budget analysts are responsible for understanding their project's authorizing legislation reimbursability, interest assessment requirements, and for complying with the requirements established in this D&S.

C. B**AD – Appropriated Debt Accountant.** The appropriated debt accountant is responsible for recording monthly power revenue estimates for Reclamation's power capital investment included in Western's power systems.

3. **Starting IOI.** IOI begins when interest during construction (IDC) terminates**.** IDC is to be calculated for the entire fiscal year that the project, unit, division, or feature is transferred from standard general ledger account (SGL) 1720 – *Construction In Progress* to SGL 1740 – *Plant In Service*. The IOI assessment will normally begin in the subsequent fiscal year based upon the prior-year capital-investment ending balance. Paragraphs 6.A. through 6.B. describe the SGL accounts used to record capital-investment costs**.** See Reclamation Manual (RM) D&S FIN 07-20-10, – *Interest During Construction* for IDC assessment and termination requirements.

4. **Terminating IOI.** IOI assessments are terminated upon receipt of the final capital investment repayment.

5. **Project Purposes Subject to IOI.** Capital-investment costs are allocated to project purposes or project authorities based upon the benefits derived from each project, feature, division, or unit or based upon the authorizing legislation. Project purposes are identified in Reclamation's accounting system via the Project Type accounting element, which is a one- or two-digit alpha code. Refer to RM D&S FIN 04-20 - *Standard General Ledger (SGL) Chart of Accounts*, Appendix G – *Project Types* for a complete list of project types and the corresponding project purpose/authority. Normally, most if not all, power project purpose and the municipal and industrial (M&I) water project purpose costs are reimbursable and

subject to an IOI assessment. Other project purpose costs are normally nonreimbursable but this can be changed as the result of legislative language or an administrative determination. In cases where these other purposes, except irrigation, are determined to be reimbursable, the costs are generally subject to IOI. The project accountants must understand each project's repayment requirements. Examples of common nonreimbursable project purposes are: recreation, fish and wildlife, flood control, and work or projects authorized as loans under the Small Reclamation Project Act of 1956, 70 Stat. 1044. Normally Safety of Dams costs are allocated only to reimbursable project purposes, and as a rule, only 15 percent of those costs are reimbursable.

6. **SGL Accounts Assessed for IOI.**

A. **Capital Investment.** Normally, all capital investment costs are recorded in SGL accounts 1740 - *Other Structures and Facilities* and 1730 – *Buildings.* The reimbursable balances, less repayments realized and less up-front funded balances recorded in these SGL accounts, are used to calculate IOI assessments.

B. **Equipment.** Cost recovery and IOI assessment procedures vary for SGL 1750 – *Equipment* from project to project and region to region. In cases where equipment costs are recovered as part of the capital investment costs, the regions must notify the appropriate Western regional office. Regions shall direct any questions received from the Western's Denver Corporate Office regarding this or any other accounting issue to the appropriate Western regional office or to Reclamation's BAD.

C. **Expensed Costs.** There are cases where costs, which Reclamation law classifies as capital investment for cost recovery purposes, are charged to an expense SGL account because of Federal generally accepted accounting principles (GAAP). In such cases, the project accountant must record these costs to unique cost structures that will ensure the cost recovery and any IOI assessment are properly handled.

7. **Other Entity Impacts.**

A. Congress passed The Department of Energy Organization Act on August 4, 1977. Because of this Act, DOE and the power-marketing administrations (PMA) assumed the responsibility for transmitting and marketing Reclamation's hydroelectric power. They also became responsible for collecting repayment from their power customers for all power capital investment and O&M expenses. DOE released Order RA 6120 – *Power Marketing Administration Financial Reporting* on September 20, 1979. This Order directs how the PMAs are to calculate IOI on power assets, including Reclamation's power generation assets.

B. Where Reclamation, Western and/or the Corps of Engineers each have an interest-bearing investment in a project, close coordination is required in computing IOI, particularly concerning any interest repayment reduction that may result from the other entity's actions during the fiscal year.

8. **Cost Allocation Revisions.** In the event a project, unit, division, or feature's cost allocation is revised and an interest-bearing function is affected, the IOI calculation must be based upon the cost allocation in effect for the year for which the IOI is applied. In the event the cost allocation affects an IOI assessment already calculated and recorded, the IOI must be recalculated for the entire year based upon the applicable cost allocation. The IOI adjustment may be delayed until the final cost allocation is determined if a project's features are declared substantially complete over a period of fiscal years and the final cost allocation is dependent upon total costs incurred.

9. **Interest Rates and Calculation Methods.** IOI interest rates can vary by year, and calculation requirements can vary by project. The most common calculation method is discussed in Paragraph 9.A.(1) below. Project-specific legislation can dictate how IOI is calculated. Some legislation and policy documents are cited below.

A. **Average Unpaid Investment Balance Method.**

(1) The Average Unpaid Investment Balance Method of computing IOI is applicable to power investment and M&I water investment repaid from income. The exceptions to this method include the Boulder Canyon Project, Colorado River Basin Project, Colorado River Storage Project and its participating projects (since the authorizing legislation precludes using this method), and projects included in the Columbia River Federal Power System.

(2) This method assumes that net revenues, after the payment of interest and O&M, will be applied to repay the highest interest-bearing investment first. The IOI expense will be recomputed in accordance with the procedures established in Appendix A – Procedures for Computing Interest-Bearing Reimbursable Investment and displayed in the calculation example Figure 1 in Appendix C.

B. **Irrigation.** Due to the absence of any legislative language authorizing the assessment of interest on costs allocated to irrigation, such costs are exempt from any interest assessment. In cases where water and/or a water facility is allocated to irrigation for repayment but the water is being sold under an M&I water contract or for M&I water usage, interest is normally assessed and the contract will dictate the rate and terms of repayment.

C. **DOE Policy – Power Asset IOI.**

(1) DOE Order RA 6120 states: "Interest expense for each of the years of the study (Power Repayment Study) will be the sum of the amounts determined by: (1) applying the applicable interest rate to each estimated unamortized power investment at the beginning of the year; plus (2) applying one-half of the applicable interest rate to power investments (i.e., additions and replacements) expected to be added and in service during the year; plus (3) applying the applicable interest rate to capitalized unpaid or deferred annual expense, if any. If the interest credit concept is utilized by the PMA, the interest credit must be offset against interest expense." The unamortized investment is the difference between the total capital investment and any repayment received as of the end of the previous fiscal year.

(2) The DOE Order only applies to power assets associated with either Western's or BPA's power systems. Reclamation's regions compute the IOI for any power assets not associated with DOE PMA power systems based upon the applicable legislative requirements.

D. **The Reclamation Act of 1939, Section 9(c).** Section 9(c) provides the basic requirements regarding interest assessments and rates for M&I water and power sales.

(1) Section 9(c) states: "The Secretary is authorized to enter into contracts to furnish water for municipal water supply or miscellaneous purposes: Provided, That any such contract either (1) shall require repayment to the United States, over a period of not to exceed forty years from the year in which water is first delivered for use of the contracting party, with interest not exceeding the rate of 3½ per centum per annum if the Secretary determines an interest charge to be proper, of an appropriate share as determined by the Secretary of that part of the construction costs allocated by him to municipal water supply or other miscellaneous purposes; or (2) shall be for such periods, not to exceed forty years, and at such rates as in the Secretary's judgment will produce revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost and an appropriate share of such fixed charges as the Secretary deems proper, and shall require the payment of said rates each year in advance of delivery of water for said year. Any sale of electric power or lease of power privileges, made by the Secretary in connection with the operation of any project or division of a project, shall be for such periods, not to exceed forty years, and at such rates as in his judgment will produce power revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost, interest on an appropriate

share of the construction investment at not less than 3 per centum per annum, and such other fixed charges as the Secretary deems proper". . .

(2) The Office of Program and Policy Services issues an annual Interest Rate Certification Memorandum to communicate the applicable annual interest rate for all projects regulated by The Reclamation Act of 1939, Section 9(c). Appendix B, – Interest Rate Certification Memorandum Example is a copy of the actual memorandum sent out for fiscal year (FY) 2006.

E. **Boulder Canyon Project Act, December 21, 1928 (Ch 4, 245 Stat. 1057).** Section 2(d) states: "The Secretary of the Treasury shall charge the fund as of June 30 in each year with such amount as may be necessary for the payment of interest on advances made under subdivision (b) at the rate of 4 per centum per annum accrued during the year upon the amounts so advanced and remaining unpaid, except that if the fund is insufficient to meet the payment of interest the Secretary of the Treasury may, in his discretion, defer any part of such payment, and the amount so deferred shall bear interest at the rate of 4 per centum per annum until paid."

F. **Colorado River Storage Project Act, April 11, 1956 70 Stat. 105).** Section 5(f) states: "[Interest rate.]—The interest rate applicable to each unit of the storage project and each participating project for purposes of computing interest during construction and interest on the unpaid balance shall be determined by the Secretary of the Treasury, as of the beginning of the fiscal year in which construction is initiated, on the basis of the compound average interest rate payable by the Treasury upon its outstanding marketable public obligations, which are neither due nor callable for redemption for fifteen years from the date of issue."

G. **River and Harbor, Flood Control, and Water Supply Act of 1958, July 3, 1958 (P.L. 85-500, 72 Stat. 297).** Section 301(b) states: ". . . And provided further, That the entire amount of the construction costs, including interest during construction, allocated to water supply shall be repaid within the life of the project but in no event to exceed fifty years after the project is first used for the storage of water for water supply purposes, except that (1) no payment need be made with respect to storage for future water supply until such supply is first used, and (2) no interest shall be charged on such cost until such supply is first used, but in no case shall the interest-free period exceed ten years."

H. **Fryingpan-Arkansas Project, August 16, 1962 (P.L. 87-590).** Section 2 [Repayment period for irrigation water users; no development period authorized - Rates to be charged for commercial power and water for municipal, domestic or industrial use - interest rates.] states:

(1) "(a) Contracts to repay the portion of the cost of the Fryingpan-Arkansas project allocated to irrigation and assigned to be repaid by irrigation water users (exclusive of such portion of said cost as may be derived from temporary water supply contracts or from other sources) which are entered into pursuant to subsection (d), section 9, of the Reclamation Project Act of 1939, 53 Stat. 1187, as amended, shall provide for a basic repayment period of not more than fifty years after completion of construction and shall not provide for any development period. Such contracts shall be entered into only with organizations which have the capacity to levy assessments upon all taxable real property located within their boundaries."

(2) "(b) Rates charged for commercial power and for water for municipal, domestic or industrial use or for the use of facilities for the storage and/or delivery of such water shall be designed to return to the United States, within not more than fifty years from the completion of each unit of the project which serves those purposes, those costs of constructing, operating and maintaining that unit which are allocated to said purposes and interest on the unamortized balance of said construction allocation and, in addition, within the period fixed by subsection (a) of this section, so much of the irrigation allocation as is beyond the ability of the water uses and their organizations to repay."

(3) "(c) The interest rate on the unamortized balance of the commercial power and municipal, domestic, and industrial water supply allocations shall be determined by the Secretary of the Treasury, as of the beginning of the fiscal year in which construction is initiated, on the basis of the computed average interest rate payable by the Treasury upon its outstanding marketable public obligations, which are neither due nor callable for redemption for fifteen years from the date of issue. (76 Stat. 390; 43 U.S.C. § 616a."

I. **Colorado River Basin Project, September 30, 1968 (P.L. 90-537, 82 Stat. 885).** Section 403(h) states: "The interest rate applicable to those portions of the reimbursable costs of each unit of the project which are properly allocated to commercial power development and municipal and industrial water supply shall be determined by the Secretary of the Treasury, as of the beginning of the fiscal year in which the first advance is made for initiating construction of such unit, on the basis of the computed average interest rate payable by the Treasury upon its outstanding marketable public obligations which are neither due nor callable for redemption for fifteen years from the date of issue."

J. **The Reclamation Safety of Dams Act Amendment of 1984, August 28, 1984, (P.L. 98-404, 98 Stat. 1481).** This act provides the interest assessment and rate requirements for all safety of dam projects and states:

(1) "(4) Costs allocated to the purpose of municipal, industrial, and miscellaneous water service, commercial power, and the portion of recreation and fish and wildlife enhancement costs reimbursable under the Federal Water Project Recreation Act, shall be repaid within 50 years with interest. The interest rate used shall be determined by the Secretary of the Treasury, taking into consideration average market yields on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the applicable reimbursement period during the month preceding the fiscal year in which the costs are incurred. To the extent that more than one interest rate is determined pursuant to the preceding sentence, the Secretary of the Treasury shall establish an interest rate at the weighted average of the rates so determined. 98 Stat. 1481."

(2) "(d) The Secretary is authorized to negotiate appropriate contracts with project beneficiaries providing for the return of reimbursable costs (43 U.S.C. § 506 note.) under this Act: Provided, however, That no contract entered into pursuant this Act shall be deemed to be a new or amended contract for the purposes of section 203(a) of Public Law 97-293 (43 U.S.C. § 390 cc.)"

10. **IOI Accounting Entry Requirements.**

A. **Imputed Expense SGL Account.**

(1) An imputed expense, in SGL 6730, equals the amount of IOI repayment owed from the beneficiaries, must be recorded each year except in cases where an actual expense is recorded, based upon the amount Reclamation owed and paid to the miscellaneous receipts account of the Department of the Treasury (Treasury). The imputed expense entry reflects the cost Treasury incurred to borrow the funds appropriated to Reclamation to construct project assets. The IOI imputed expense must be recorded in the fund code used to finance the capitalized asset.

(2) One-fourth of the IOI imputed expense must be recorded quarterly unless an exception is identified in this D&S. The quarterly entries must be either an estimate based upon the prior year actual IOI revenue or an actual amount based upon the unamortized capital investment balance unless an exception is identified in this D&S. Regardless of the method used to generate the first three quarterly entries, the year-end total must be trued-up to the actual revenue due in the fourth quarter and recorded at the project level. The IOI imputed expense or actual

expense entry must equal the IOI revenue received, except when a project does not generate adequate revenue to repay the total current year O&M and IOI expenses in the year they are due.

B. **Vendor Code.** Reclamation uses a unique vendor code to ensure that IOI imputed expense entries recorded in SGL account 6730 – *Imputed Costs*, can be isolated from all other imputed expense entries. The IOI vendor code is **IOI**.

C. **Imputed Expense Posting Model.** The posting model used to record imputed IOI expense is **transaction code/type SV/UI**. This transaction code/type posting model debits SGL 6730 and credits SGL 578A – *Imputed Financing Source – Operating Resources*. IOI imputed expense calculation requirements for M&I water repayment contracts, M&I water service contracts, and power investment are provided below.

(1) M&I Water Repayment Contracts. Regions are not required to record quarterly IOI imputed expense estimates for IOI revenue recovered as part of an M&I water repayment contract. Instead, the regions are required to calculate and record the IOI imputed expense at the time the billing document is recorded in the accounting system and revenue is recognized. This exception to the quarterly reporting requirement is based upon the fact that M&I water contract repayment due dates occur throughout the year and a basic review of this issue indicated that tracking due dates, partitioning the payments, and recording the interest quarterly was not practical. This is especially true since many contract due dates occur in the first and second quarters.

(2) M&I Water Service Contract. Quarterly IOI imputed expense entries are required for IOI revenue that is recovered through a water service contract. The IOI imputed expense estimate must be based upon total water used during the current quarter or in the same quarter of the prior year(s). The region must determine the percentage of the water rate that is associated with IOI revenue owed to the project. The IOI estimated imputed expense is calculated by multiplying the IOI percentage of the rate times the quarter's water sales revenue total, i.e., if the IOI component is 25 percent of the water rate, the IOI estimated imputed expense will equal 25 percent of that quarter's water service contract revenues. Regions must maintain supporting documentation on the methodology, the source of information, and computations for future reference, oversight, or audit.

(3) Power Assets in Western's Power Systems. The regions are required to record quarterly IOI imputed expense estimates of what is owed from the power customers on Reclamation's power capital investment used in Western's power systems. This requirement applies regardless of the appropriated funding source

used to construct and maintain the power project assets. It does not apply to capital investments constructed with up-front customer funding. Western will calculate the actual IOI expense owed to Reclamation at year end based upon the prior year unamortized power capital-investment balance. The regions have two options for calculating quarterly IOI imputed expense estimates. Regardless of the option used, the year-end IOI imputed expense has to be trued-up to Western's year-end IOI imputed expense calculation:

(a) Record the first three quarterly IOI amounts based upon one-fourth of the prior year actual IOI expense, or

(b) Calculate the first three quarterly IOI amounts based upon the prior year-end unamortized capital investment. The forth quarter IOI imputed expense entry would true-up the total IOI imputed expense amount to Western's IOI imputed expense amount.

(4) Exception – Boulder Canyon Project. The Lower Colorado (LC) Region manages the Boulder Canyon Project, which is a General Fund funded power project. Western markets and transmits the hydropower generated by the Boulder Canyon Project. The LC Region initiates the annual capital investment repayment to the Miscellaneous Receipts account of the Treasury for this project. The repayment is made from the Lower Colorado River Basin Fund prior to the end of the first quarter of the fiscal year based upon an amortization schedule that includes the IOI assessment. Due to the timing of the repayment, quarterly IOI imputed expense estimates are not required. The LC Region records an actual expense for the IOI portion of the repayment at the time the repayment is processed.

(5) Pacific Northwest (PN) Region's Power Assets Included in BPA's Power System. BPA markets and transmits power from the Federal Columbia River Power System (FCRPS). The PN Region manages all of Reclamation's power assets included in the FCRPS. Based upon the authority and responsibilities assigned to the BPA administrator in the Bonneville Project Act of 1937, BPA assumed the repayment liability for all FCRPS power assets, including the PN Region's power assets. Consequently, BPA records the IOI expense in their accounting records and Reclamation/PN Region agreed not to record imputed IOI expense entries in Reclamation's accounting records.

D. **Revenues.**

(1) Fund Codes. Each project's IOI revenue must be recorded in the same fund code where the O&M and/or capital investment revenue is recorded. Do not record IOI revenue in any of the fund codes specifically identified for miscellaneous interest, interest revenue, or interest on advance, etc.

(2) SGL Accounts. Regions must use either SGL account 5310 – Interest Revenue, Other, 520A – Revenue from Services Provided, Receivable, or 5900 – Other Revenue to record quarterly IOI revenue estimates and actual IOI revenue received. Regardless of the revenue SGL account used, the region must be able to identify cumulative IOI revenue in Reclamation's official accounting system, through the use of a specific project category, program number, or job number. Refer to RM D&S FIN 04-20 – Standard General Ledger (SGL) Chart of Accounts, Appendix C – Standard General Ledger (SGL) Account Definitions for more information on Reclamation's SGL accounts.

(3) M&I Water Repayment Contract Revenue. Quarterly IOI revenue entry estimates are not required for IOI revenue recovered through an M&I water repayment contract because the annual, semi-annual, or periodic repayment is based upon scheduled due dates, which are generally prior to the delivery of water. In most cases, revenue is recognized at the time of the billing so the IOI revenue will be included in that entry. There are special circumstances, such as exists for one PN project where the revenue must only be recognized based upon units of water delivered. In this situation, the region normally recognizes revenue at least quarterly. While the regions are not required to record IOI revenue in a separate SGL account, they are required to record an IOI imputed expense entry at the time the revenue is recognized, based upon the amount of IOI revenue calculated to have been collected.

(4) M&I Water Service Contract. Quarterly IOI revenue entries are not required for IOI revenue recovered through an M&I water service contract. Water-service contracts for irrigation water sales are not subject to an interest assessment. M&I water service contracts or other non-agricultural purposes are generally subject to an IOI assessment. Water-service contracts are billed and repaid based upon a rate established through a rate setting process. If IOI is assessed, IOI will be factored into the complex water-service rate calculation. A quarterly IOI revenue estimate is not required because revenue is dependent upon actual water used, the amount can vary significantly from one period or year to another, and the amount of revenue generated from these contracts that is subject to an IOI assessment is generally not material. Additionally, water users are required by law to pay in

advance. Generally, water-service contract revenue is recorded periodically throughout the year based upon meter readings or other data. The IOI revenue is as a component of the total revenue contract revenue so the IOI revenue is recognized and recorded based upon the actual revenue entry. The IOI imputed expense must be trued-up prior to the end of the fiscal year if the information is available.

(5) Reclamation Fund Power Revenues from Western.

(a) The regions must not record quarterly IOI revenue estimates for power revenues earned by Western's power systems. The BAD accountant that manages Reclamation's receivable due from Western records a monthly power revenue estimate for the first 11 months of each fiscal year. This accountant reverses the sum of the 11 revenue estimates in September, prior to fiscal-year end. The monthly power revenue estimate is recorded at the power system level based upon Reclamation's prior-year power revenue received and adjusted for known fiscal year variances.

(b) At year end, the regions must record a power revenue and IOI revenue entry based upon the unfunded revenue transfer received from Western. The entry shall be recorded in the Reclamation Fund, fund code 615 – Sale of Power, WAPA at the project level. In the event Western's unfunded revenue transfer is not received in a timely manner, the regions are required to record an estimated revenue entry based upon the best information available, prior to year end. The estimate must be trued-up in the next fiscal year as soon as Western's unfunded revenue transfer is received.

(6) **General Fund Power IOI Revenue.** Reclamation's General Fund funded power systems are managed by two regions and are all included in Western's power systems. The IOI owed for these power assets is deposited in Treasury's Miscellaneous Receipts account. The regions handle their IOI payments and estimates as follows:

(a) Boulder Canyon Project. Boulder Canyon Project annual capital investment is usually transferred to Treasury's General Fund prior to the end of the first quarter each year. The region makes quarterly IOI payment transfers to Treasury's Miscellaneous Receipts account; consequently, the region does not record quarterly IOI revenue estimates for this project. IOI payment calculation is tied to the capital investment repayment. If the annual capital investment repayment has not been made prior to the first quarter IOI payment, the IOI payment will be based upon the amount identified in the

Power Repayment Study. The second quarter IOI payment will be the actual amount due and any necessary first quarter true-up. The third and fourth quarter payments are always the actual amounts due.

(b) Upper Colorado (UC) Region Power Projects.

(i) The UC Region manages the remaining General Fund funded power projects. Western collects the power revenues for these power systems and deposits the cash into their Upper Colorado River Basin Revolving Fund using DOE's Agency Code. Western is responsible for making capital investment and IOI repayments to Treasury's Miscellaneous Receipts account from their revolving fund and for notifying the UC Region when a repayment is made.

(ii) The revolving fund is the sole financing source for Reclamation's and Western's current year O&M expenses and for capital investment and IOI repayment. Due to low revenues, Western's bill crediting practices, and O&M costs, Western has not been available to made repayments to Treasury since 1999. Until cash balances in the revolving fund are adequate to make regular annual payments, the UC Region does not have a valid basis for recording IOI revenue estimates; therefore, no quarterly IOI revenue estimates will be recorded.

(7) **BPA Power Receipts.** BPA is required to make only one annual repayment to the Reclamation Fund. This repayment is generally made and recorded in September. BPA's repayment includes the annual IOI, any scheduled capital investment repayment, and/or scheduled aid to irrigation repayment. Refer to A-123 Process Memorandum – *Accounts Receivable – Bonneville Power Administration Receivabl*e for more information regarding their annual repayment. The PN Region includes the IOI portion of BPA's annual repayment in the total revenue amount recorded in fund code 608 – *Sale of Electric Energy, Bonneville Power Administration* at the project level.

11. **Related References.**

A. **OMB Circular A-136** – *Financial Reporting Requirements.*

B. **RM D&S FIN 02-10** – *Appropriations – Treasury Symbols and Fund Codes.*

C. **RM D&S FIN 04-20** – *Standard General Ledger (SGL) Chart of Accounts.*

D. **RM D&S FIN 06-30(B)** –*Interest Rate Formula.*

E. **RM D&S FIN 07-20 – Interest During Construction (IDC).**

F. **A-123 Memorandums.**

(1) *Accounts Receivable – Bonneville Power Administration Receivable.*

(2) *Accounts Receivable – Western Area Power Administration Receivable.*

Interest on Investment (IOI)
Procedures for Computing
Interest-Bearing Reimbursable Investment

General. The average unpaid investment balance method of calculating IOI recognizes that power revenues and revenues from water-service contracts for municipal and industrial water sales are collected and deposited with the Department of the Treasury (Treasury) monthly. Therefore, monthly net revenues must be considered in the IOI computation.

A. In order to eliminate monthly computations, this method of computing actual interest assumes the following:

(1) Revenues are applied to operations and maintenance (O&M) and other expenses (except plant depreciation) monthly.

(2) The remaining balance or net revenue is available monthly for repayment of the unpaid investment.

(3) Net revenues essentially flow uniformly throughout the year. Where this assumption is unreasonable, net revenues and interest must be computed monthly.

B. The priority of net revenue application is as follows:

(1) Current year's interest on the total unpaid Federal investment.

(2) Unpaid prior year expenses (deficits).

(3) Amortization of investment in descending order of interest rates, except that net revenues are applied first to any required repayment of investment.

2. **Interest Computations.**

A. An initial estimate of IOI will be computed in the beginning of the fiscal year on unpaid investment balances for each of the interest-bearing investments.

B. After deducting the total interest expense from net revenues (see Paragraph 2.A.), the remaining net revenues will be applied to the amortization of the investment bearing the highest interest rate. The interest expense computed in Paragraph 2.A. above will be recomputed whenever revenues are sufficient to fully and/or partially repay any investments. The interest expense for investments not being repaid during the fiscal year will not be modified since there has been no reduction in the outstanding investment balance.

(1) Investments that will be Fully Repaid During the Current Fiscal Year. Interest expense will be recomputed on one-half of the investment balance outstanding at the beginning of the year since revenues, and therefore repayments, are assumed to flow uniformly throughout the year.

(2) Investments Partially Repaid. The following equation will be used to recompute interest by modifying the investment balance from a beginning of the year unpaid balance to an average unpaid investment balance:

I = (U – ((R-Ui)/2))*i

I = Recomputed interest on the highest interest-bearing investment for the fiscal year.

U = The beginning unpaid balance of the highest interest-bearing investment to be partially repaid.

i = The annual interest rate.

Ui = The initial estimate of annual interest per Paragraph 2.A. above.

R = The annual net revenues after deducting (1) interest on investments not fully repaid during the fiscal year and (2) interest and principal on investments fully repaid during the fiscal year.

C. Appendix C, Figure 1 illustrates the interest computations.

D. If net revenues do not flow in a reasonably uniform manner during the fiscal year, the net revenues must be determined for each month, and the interest and repayment of principal computed on a monthly basis as follows:

(1) Compute one month's interest on all unpaid investment at the beginning of the month.

(2) Deduct that interest from the monthly net revenues.

(3) Apply the excess net revenues to the highest interest-bearing investment.

E. When the net revenues are negative, additional interest at one-half of the current interest rate as prescribed in the section in interest rates will be charged on the deficit and the unpaid annual interest due on the Federal investments. This additional interest, the annual IOI, and the deficit will be deferred. Interest will continue be charged at the current interest rate on the total unpaid amount until repayment is made from net revenues.

DRAFT RECLAMATION MANUAL RELEASE
Comments on this draft release must be submitted to dnicholson@do.usbr.gov by July 27, 2007.

Reclamation Manual
Directives and Standards

Interest Rate Certification Memorandum Example

United States Department of the Interior

BUREAU OF RECLAMATION
PO Box 25007
Denver, Colorado 80225-0007

IN REPLY REFER TO:

84-56000
PRJ-1.10

OCT 17 2006

MEMORANDUM

To: Commissioner
Attention: 91-10000, 92-00000, 94-00000, 96-00000
Regional Directors
Attention: PN-1000, MP-100, LC-1000, UC-100, GP-1000

ACTING FOR

From: Roseann Gonzales /S/ Richard W. Rizzi
Director, Office of Program and Policy Services

Subject: Interest Rates for Fiscal Year 2007

The following rates are to be used for fiscal year 2007:

	Percentages
Plan Formulation and Evaluation	4.875*
(The unconstrained yield is 4.9351 percent)	
Repayment:	
Water Supply Act of 1958	7.652
Colorado River Storage Project	7.652
Central Valley Project (P.L. 99-546)	4.875
Power	4.9351**
Reclamation Reform Act of 1982	6.142
Colorado River Basin Salinity Control Act	4.875
Hoover Dam Power Plant Act of 1984	4.9344
Small Reclamation Projects Act (Grandfathered Projects)	7.75
Safety of Dams Act (as amended by P.L. 98-404)	***
Reclamation States Emergency Drought Relief Act of 1991	***

*The unconstrained yield decreased .2917 percent between fiscal year 2006 and fiscal year 2007. The fiscal year 2006 rate (5.125) may be decreased by a maximum of 1 quarter of 1 percentage point in accordance with the Water Resource Council Rules and Regulations. Contrary to several previous years, this constraint did not affect the rate established for fiscal year 2007.

2

**Use when rate is not otherwise provided by law.

***Rates vary by length of term. See attached schedule. For proper determination of Safety of Dams Repayment interest rates, see the May 14, 1997, memorandum entitled "Interest Rate Determinations for Safety of Dams Program Repayment Contracts."

Any questions regarding implementation of these interest rates should be directed to Mr. Karl J. Stock, Economist, Contract Services Office, at 303-445-2929.

Attachment

cc: 94-30000
84-27600, 84-44000 (Muller), 84-52000, 84-53000, 84-54000, 84-55000, 84-56000 (Simons, Bryant, Byers, Peterson, Vehmas, Walker), 84-57000, 84-68270
PN-3300, PN-6300, MP-200, MP-400, MP-410, MP-440, MP-700, MP-3400, MP-3600, LC-2000, LC-2700, LC-7055, UC-240, UC-360, UC-410, UC-446, GP-3000, GP-3100, GP-4500
Area Managers (see attached list)
BCOO-4400
(w/att to each)

Investment Project, Wyoming
Interest on Investment

Figure 1:

		1	2	3	4	5	6	7	8
Investment Component		Interest rate = **I**	Unpaid investment @ 10/1/2004 = **U**	Initial estimate of annual interest = **Ui** (col.1x 2)	Interest adjustment for principal repayments	Net interest expense for year 1 (col. 3-4)	Revenue applied to repayment	Total revenue applied to interest & repayment (col. 5+6)	Unpaid investment @ 9/30/2005 (col. 2-6)
X	X Powerplant Original cost	3.00%	$20,000,000	$600,000	/1 $ 0	$600,000	$ 0	$600,000	$20,000,000
Y	Addition Fiscal year (FY) 1975	4.00%	5,000,000	200,000	/2 13,700	186,300	/4 698,700	885,000	4,301,300
Z	Replacement FY 1980	6.00%	500,000	30,000	/3 15,000	15,000	500,000	515,000	0
	TOTALS		$25,500,000	$830,000	$28,700	$801,300	$1,198,700	$2,000,000	$24,301,300

1/ Investment X - Revenues not available for any repayment.

2/ Investment Y - Estimate of annual interest less actual expense for the year. (Col. 3-5)

3/ Investment Z - Fully repaid. Interest for one-half year.

4/ Column 7 minus column 5

ASSUMPTIONS:	
Annual gross revenues:	$10,000,000
Annual expenses:	8,000,000
Net revenues:	$ 2,000,000

CALCULATION OF R:		
Net Revenues:		$2,000,000
Less: Repayment and interest		
Investment Z (Col. 7)	$515,000	
Interest on Investment X	600,000	1,115,000
		$ 885,000

INVESTMENT Y PARTIAL REPAYMENT:

I = ((U – ((R-Ui)/2))*I

I = [5,000,000 – ((885,000-200,000)/2))x .04 = 186,300

Investment Y Net Revenue Available For Interest and Repayment	$885,000
Less: IOI	186,300
Net Revenue Available For Repayment	$698,700

Investment Y Beginning Unpaid Investment as of 10/1/2004	$5,000,000
Less: Net Revenue Available for Repayment	698,700
Unpaid Investment as of 9/30/2005	$4,301,300